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Assessing the economic and political environment in New Zealand

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Taxing capital gains – 4th time lucky?

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The Tax Working Group's interim report clearly favours expansion of a realisations-based approach to taxing capital gains rather than a whole new tax. It also proposes out-clauses that mean small businesses and certain types of high value personal items would be exempt. But at the last three elections, Labour was tripped up by the capital tax issue. Why would it be any different in 2020?

Tax Working Group report – key points for business

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The interim report of the Tax Working Group contains numerous proposals beyond ways to expand the existing capital gains tax regime. Among them: approaches to environmental taxes, a preference for an excise on sugar rather than taxing sugar-laden products, a return to depreciation for commercial buildings, and more.

The 'soft' electricity review group report

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Electricity sector participants are not breathing sighs of relief just yet over the first report from the Electricity Pricing Review. Its findings, while concerned about energy poverty, were so generally positive about current market arrangements that the risk of political intervention to force changes in an unpopular sector may have risen rather than fallen.

Govt taking heart from internal polls

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After a torrid few weeks, in which a series of relatively minor coalition squabbles and ministerial mis-steps have raised questions about Jacinda Ardern's ability to assert discipline, the govt is taking heart from internal polling showing it level-pegging with National while its coalition partners see-saw around the 5% MMP threshold.

A confounding June 1/4 GDP result

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If nothing else, the strong June 1/4 GDP result raises questions about the extent of the fall in business confidence – with consumer confidence apparently now also following suit. The 1% read for the quarter is the biggest upside surprise against RBNZ forecasts in five years and reduces the potential for interest rate cuts. It also reiterates significant capacity constraints in the economy.

RMA reform – tweak or start again?

Environment Minister David Parker told the Resource Management Law Association conference this morning that he was unsure yet whether the RMA should be subject to further reform or whether there was a case for starting "with a new name and a new piece of legislation that carries forward some of the old and some of the new". A review will commence next year.

Fonterra's reset

New leadership has allowed Fonterra a one-off opportunity to announce its first loss with a credible new-broom story. Meanwhile, it looks likely the govt will agree to Fonterra not having to collect all milk, mainly because the rule runs counter to discouraging dairy intensification.

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Capital gains tax: fourth time lucky?

Labour went into the 2011, 2014 and 2017 elections with variations of a policy to tax capital gains. On each occasion, it made clear the family home would not be touched. In each of those three elections, National ran an effective scaremongering campaign against CGT. While it was far from the only reason Labour lost in 2014, Andrew Little believed it was a sufficiently significant factor to take it off the table for 2017 by promising a Tax Working Group first.

Having replaced Little, Jacinda Ardern responded to the 2017 campaign CGT attacks by promising no legislation before the 2020 election.

The party's underlying belief that the tax system is unfair and is distorting investment to residential property is undimmed. **It remains an issue of principle and political differentiation.**

And **it is clear from the TWG's interim report that Labour is odds-on likely to go to the hustings with a refreshed CGT proposal in 2020.**

The report proposes either a realisations-based or an accruals-based approach, although chair Michael Cullen said at the report's release that **no country pursues an accruals approach**. It creates too many cashflow problems for taxpayers who don't have the income to pay tax on the deemed increase in the value of an asset they have yet to sell.

So, the TWG is likely to come back recommending a **CGT that captures the sale of shares, businesses, holiday homes, and all types of commercial, industrial and rural property.**

Note that art, jewellery and the proceeds of relationship settlements would be excluded.

What does Labour have to believe to be sure this is this not an exercise in predictable political masochism?

These are the key factors:

- it believes **the dial has shifted in the public's attitude to inequality** and that a critical minimum of support for taxing capital gains is emerging. If nothing else, that is the message of the 2017 change of govt's election and subsequent orientation;
- it hopes that **constant repetition** over the last decade and throughout the TWG process **that both the family home and the land it sits on will not be subject to the tax** means it will finally be believed. And this time around, **Labour controls the narrative more** than it could in Opposition;
- Grant Robertson has tasked the TWG with recommending "an overall package of measures" that **"could result in a revenue-neutral package"**. History suggests voters have trouble both understanding and then believing that a new tax won't collect more revenue. The use of "could" suggests they would be right to be sceptical;
- it is resigned to **most of those who would pay the tax not being its supporters**. The TWG's interim report suggests imposing a tax-free threshold below which the tax wouldn't apply to business sales. That could neutralise opposition from small business owners for whom their business may be their most valuable asset and retirement provisioning.

The interim report is s**trong on the need not to create new distortions in the course of erasing those which already exist** because of the limited way capital gains are currently taxed.

It is **particularly concerned about impacts on savings and capital formation**.

For example, it says "taxing individual share investments more harshly than the same investments through institutions could lower returns, undermine our equity markets and ultimately lead to NZ companies moving offshore".

It proposes a lower tax rate on KiwiSaver PIE funds than at present, and restoring incentives for employers to include low-paid employees in KiwiSaver schemes.

Robertson's updated instructions to the TWG include examining **"measures that will promote a more balanced savings culture and deeper capital markets".**

Revenue potential of a CGT

The TWG is at pains to stress its calculations of tax gains from an expanded CGT are incomplete. Further work will appear in its final report before Christmas and recommendations, due next May.

However, it envisages tax from realisations of land and shares could be $290m in year one, rising to $5.96b in year 10. The 10th year estimate breaks down to:

- $2.24b from residential land, excluding family homes;
- $1.62b from commercial, industrial and other land;
- $840m from rural land;
- $1.26b from domestic shares.

The TWG would expect some downward pressure on house prices by making residential property investment less attractive, but Cullen expressed doubt that it would raise rentals, which were already very high and determined by what NZers' incomes allowed.

Replacing the fair dividend rate method of taxing passively held foreign shares could yield an estimated additional $680m a year within 10 years.

Key TWG proposals affecting business

- **No to sugar taxes** on specific sugary products, but proposes to examine a sugar excise, akin to tobacco and alcohol excises;
- **business operations of registered charities** could be taxed on income and rebated against payments to beneficiaries;
- tighter **rules to prevent trading in trust losses**, a practice observed particularly in the property development sector;
- **environmental taxes** should focus more on incentivising behaviour change than targeting new revenue. **The Waste Levy** could be expanded. Environmental tax revenues might be **recycled** to accelerate improved outcomes. Taxes in this area might **vary regionally**, depending on desired outcomes. **Water pricing** is desirable, but only possible once Maori rights and interests are settled;
- consideration of **reversing the abolition of depreciation on commercial buildings**. Robertson cites a desire for a review of the tax treatment of seismic strengthening, particularly residential and heritage buildings;
- no changes to GST, although international progress on GST being applied to financial transactions should be monitored. No to a financial transaction tax;
- no company tax rate cut or progressive corporate tax rate; retain the imputation system.

Ardern gets tough with her own; can/will she ever with Peters?

In little more than a fortnight, PM Jacinda Ardern has sacked one Minister (Meka Whaitiri), accepted the resignation of another (Clare Curran), and put to bed two out of three major sources of disunity with her coalition partner, NZ First.

For good measure, she held a slick, slightly unconvincing show of unity at last Sunday's "Our Plan" event, formally outlining the govt's priorities.

None of that suggests a leader who is either weak or not in control. But she remains in danger of those tags sticking and becoming entrenched if she cannot be seen to control the divisive inclinations of her deputy, Winston Peters.

In part, **Ardern is being let down by patchy inter-party communications.** She was blindsided by Winston Peters's comments on refugees in Nauru, when officials should have ensured she was briefed.

Likewise, it seems too little thought was given to ensuring NZ First was on board with the new Maori-Crown agency, whose initial launch was sabotaged by a walkout from the Cabinet room by NZ First ministers just before the media was due to arrive for the announcement of its creation.

This week, she settled both issues, announcing a mutually agreed position on raising the refugee intake to 1500 annually, with Peters at her side, and the Maori-Crown agency's creation.

The '**weak' tag is sticking also because Ardern's "relentlessly positive" style is a deliberate part of her political brand.** She is determinedly reasonable and personable.

Ardern pointed to this **determination to exhibit her own style of leadership** in Parliament's special debate on 125 years' on womens' suffrage, **asking that politicians not be judged for "doing things differently"**. She singled out the combative, "gotcha" style of politics for the **unpleasantness of Parliament as a workplace**. Peters's sheepish grin at that comment was the one moment in her speech when, sitting at her side, he became animated.

But the third and most important reason the 'weak' tag sticks is that **she is either unable or unwilling to clash with Peters publicly**.

The line from the Beehive for this acceptance can be summed up as: **"Can't govern with him, can't govern without him."**

All politicians know that **voters reject disunity**, so Labour is apparently **relying on Peters to recognise when his grand-standing starts harming the govt.** History suggests that is not a reliable expectation.

Pay equity

The govt will legislate a new framework for bargaining to settle pay equity claims that will be in place from next year.

"The question here is not if, but how we implement equity," guidance notes from MBIE say.

Bargaining will use Employment Relations Act processes, with resort to a dispute resolution process in the case of impasse.

Labour's pragmatists also far prefer dealing with NZ First than the Greens.

NZ First's position to the conservative right of Labour is a convenient foil to the demands of Labour's left-wing activists.

By comparison, the Greens continue to be seen as a loose unit. Co-leader James Shaw is respected, as is Julie-Anne Genter and fellow minister outside Cabinet, Eugenie Sage. Shaw showed how respectful disagreement looks this week when he took the govt to task on maintaining a military presence in Iraq during Question Time.

But Green MPs aligned with co-leader Marama Davidson – including Golriz Gharaman, Gareth Hughes, and Chloe Swarbrick – are viewed as contributing an unmanageable combination of idealism, naivety and political immaturity.

Labour taking comfort from internal polling

Despite some awful headlines, Labour is quietly confident that neither the disunity nor the business confidence narrative is eroding its public support.

UMR tracking polls within the last fortnight had **Labour and National level-pegging at 41% each, while the Greens were at 8% and NZ First at 4%**.

Such a result would deliver a two-party Labour coalition with the Greens. NZ First would not make it back to Parliament unless it won an electorate seat and would have too few seats to form a coalition with National, even if it did.

No one in Labour takes that as a 2020 election forecast. Support for both NZ First and the Greens fluctuates between 4% and 8%, according to two ministers who regularly see this polling.

However, they do take it as **evidence that Labour remains competitive in its own right against National,** especially as Jacinda Ardern's approval rating is holding up in the mid-70s. "She has a megaphone to speak to the public that cuts through the media," says one adviser.

The precarious position of the two minor parties of govt also explains the willingness of both Peters and Shane Jones to take belligerent public stances.

Ardern will get to **reset the narrative at the UN General Assembly in New York next week.** The **international media has caught Jacindamania** just as it is wearing off with NZ media and she will be returning to themes that worked in her first weeks in office – defence of the multi-lateral trading system and a rules-based international order.

Rocks in the road at home

Arguments over the final shape of the Employment Relations Bill are still to be had, and could prove difficult, but Peters's insistence that the bill "will pass" is an important assurance. A deal, perhaps as simple as acknowledging that Multi-Employer Contract Agreements can include regional pay rates, may be enough to allow it to proceed. Labour is under intense pressure from its union backers not to resile on MECAs, especially as the proposed changes are no more than a return to the pre-2015 status quo.

Also in prospect next week is a rejection of the latest pay offer to primary and secondary teachers, with a prospect of strikes likely to firm up as a result.

A dangerously soft electricity review

The first report of the Electricity Review Group was so unexpectedly mild in its findings that the **sector should be concerned about the potential for unpredictable political intervention**.

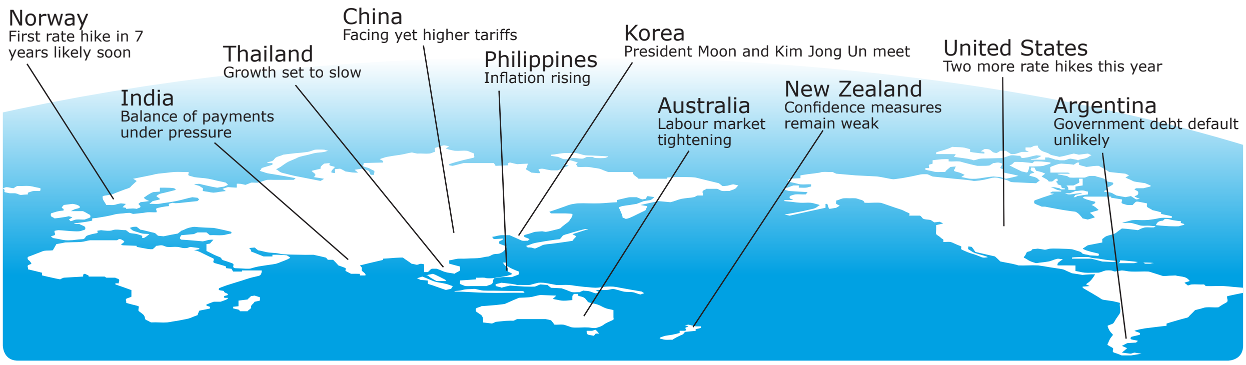
Rather than conveying a clear way forward, the review essentially gave generator-retailers and the wholesale electricity market a clean bill of health, while highlighting affordability concerns for a long tail of low income households.

Recommendations to reform the ineffective low user regulations were predictable. Concerns expressed about low income households subsidising distributed generation (e.g., roof-top solar and batteries) and EV owners also covered well-trodden ground.

Meridian Energy's immediate decision to axe prompt payment discounts reflects gen-tailers' sensitivities, although no other major retailers look likely to follow suit.

The potential for ministers to decide to take matters into their own hands is real.

The world at a glance



June 1/4 GDP confounds expectations

The surprisingly strong June quarter GDP result, at 1% growth for the quarter, confounds the RBNZ's forecast of just 0.5% for the quarter, beat trading bank economists' forecasts, and raises questions about both the weakness in business and now consumer confidence.

From a monetary conditions perspective, it significantly reduces the likelihood of a cut to the OCR, just a month after the RBNZ issued a monetary policy statement that included a 100 basis points cut scenario.

Any cut looks much less likely now if only because, at 1% for the quarter, the June GDP out-turn revives concern about the capacity constraints in the NZ economy, and the consequent inflationary pressure those constraints imply.

The result is all the more surprising because maintenance shutdowns at Methanex's methanol production plant and at the Marsden Point oil refinery combined to knock 0.3% off the quarterly figure. They will be up and running in the Sept quarter, where 0.8% GDP growth is now more confidently forecast.

Consumer confidence now heading south

The **Westpac McDermott Miller consumer confidence index** declined 5.1 points to 103.5 in the Sept quarter, the lowest level since Sept 2012 and below the long-run average of 111.3. A reading above 100 indicates optimists outnumber pessimists. A net 7% of the 1,556 surveyed expect the economy to deteriorate over the coming year.

Pessimism was more marked in Auckland than other parts of the country, with sentiment turning negative for the first time since 2009, for a net score of 98.5.

Wellington, by comparison, is more upbeat than the national index score, at 109.4. Similar trends are observable between private sector employees, who remain net positive at 102.7, compared with a 111.5 net positive score for public sector workers.

Responses from the lowest income consumers polled for the latest quarterly index showed some positive impact from the July 1 Families Package, with young and old seeing improvement in "current conditions", although all age groups were expecting declines in their financial position in the year ahead.

It remains to be seen whether the stronger-than-anticpated GDP result for the June quarter has any impact on sentiment over time, especially if such relative buoyancy is maintained.

Economic indicators

The **BNZ-Business NZ performance of services index** fell to a seasonally adjusted 53.2 in Aug, from 54.8 in July and below the long-run average of 54.5. A reading of 50 separates expanding activity from contraction. The services sector is continuing its expansionary phase underway since July 2010, but

Trading partner growth

(2016-2017 actual; 2018-2020 Hugo and Consensus Forecasts)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2016	2017	2018	2019	2020	2016	2017	20187	2019	2020
China	27.7	6.7	6.9	6.6	6.4	6.0	2.0	1.6	2.1	2.3	2.3
Australia	19.8	2.6	2.2	3.2	2.8	2.6	1.3	1.9	2.0	2.2	2.5
United States	11.6	1.5	2.2	2.9	2.6	1.8	1.3	2.1	2.5	2.3	2.2
Japan	7.2	0.9	1.7	1.1	1.2	0.5	-0.1	0.5	0.9	1.1	1.6
Eurozone	6.8	1.8	2.5	2.1	1.8	1.4	0.2	1.5	1.7	1.6	1.7
South Korea	3.5	2.9	3.1	2.8	2.7	2.5	1.0	1.9	1.6	1.9	2.0
United Kingdom	3.2	1.9	1.7	1.3	1.5	1.6	0.7	2.7	2.4	2.1	2.1
Singapore	2.7	2.4	3.6	3.1	2.7	2.4	-0.5	0.6	0.7	1.4	2.0
Hong Kong	2.7	2.1	3.8	3.6	2.8	2.4	2.4	1.5	2.3	2.3	2.4
Taiwan	2.5	1.4	2.9	2.7	2.3	2.1	1.4	0.6	1.5	1.4	1.1
Malaysia	2.2	4.2	5.9	4.9	4.7	4.8	2.1	3.7	1.2	2.1	2.9
Indonesia	2.1	5.0	5.1	5.2	5.3	5.2	3.5	3.8	3.5	3.8	3.9
Thailand	1.9	3.3	3.9	4.5	3.9	3.2	0.2	0.7	1.2	1.5	1.6
Philippines	1.6	6.9	6.7	6.4	6.5	5.9	1.8	2.9	5.0	4.0	3.5
Vietnam	1.6	6.2	6.8	6.8	6.5	6.2	2.7	3.5	4.0	4.2	4.2
India	1.5	7.1	6.7	7.4	7.5	7.5	4.5	3.6	4.8	4.8	4.8
Canada	1.5	1.4	3.0	2.0	1.9	1.8	1.4	1.6	2.4	2.1	2.0
NZ Trading Partners	100.0	3.6	4.0	4.1	3.8	3.4	1.4	1.8	2.1	2.2	2.3
Forecasts for New Zealand											
Consensus		4.0	2.8	2.7	2.7	2.6	0.6	1.9	1.6	2.0	2.0
BNZ Forecasts		4.0	2.8	2.6	2.9	2.7	0.6	1.9	1.6	2.2	2.2
The World		2.5	3.2	3.3	3.1	2.8	2.4	2.5	2.9	2.7	2.8

momentum is slowing with the three-month moving average easing to 53.6, its lowest level in more than five years.

The number of **online job advertisements** rose by 0.5% in Aug and 7.4% over the year, according to MBIE data.

NZ's seasonally adjusted **current account deficit** reduced to $2.7b for the June 2018 quarter. The $484m decrease from the March 2018 quarter was mainly driven by rising dairy and meat exports.

The latest **Rider Levett Bicknall Crane Index** rose to 184 in the third quarter of 2018, up 12% from 164 in the first quarter. It is the highest since the biannual index began in 2014. It measures construction industry workload in key NZ cities by counting the number of cranes.

Seasonally adjusted manufacturing sales fell 1.2% in the June quarter compared with the March quarter. Petrol and coal product manufacturing was down 8% due to a maintenance shutdown at the **Refining NZ** oil refinery. Chemical, plastics, and rubber product manufacturing volumes had the largest fall in 10 years (7.9%) due to outages and gas restrictions at Methanex Plant. The largest increases were meat and dairy product manufacturing (up 1.6%) and transport equipment and machinery (up 2.7%).

Wholesale trade expanded for a 10th straight quarter. Seasonally adjusted sales rose 2.6% in the three months ended June 30, up from 0.3% in March. An 11% increase in fruit exports drove 3% growth in wholesale sales of grocery, liquor and tobacco products.

Seasonally adjusted total **retail spending on credit and debit cards** rose 1% in Aug after lifting 0.2% in July. Spending on fuel was up 4.1%.

A 3.4% drop in **international guest nights** contributed to relatively unchanged short-term commercial accommodation in July 2018, which was up 0.1% from July 2017. July 2017 coincided with the end of the Lions tour.

Some 3,300 people filed for bankruptcy during the 2018 financial year to June 3. Analysis by **illion** said there was a 5.1% annual drop in bankruptcies, but a sharp rise among under-25s.

Real estate

The number of houses sold rose to 6,216 in Aug, 3.1% more than a year earlier on **Real Estate Institute of NZ** data. Increased turnover in the provinces made up for fewer deals in Auckland. Southland led gains with 182 sales, up 24% from a year earlier. Auckland sales slipped 2.4% to 1,792. The house price index held at a record high, up 4.1% from a year earlier.

Nouriel Roubini's gloomy 2020 forecast

Nouriel Roubini, a former senior White House economic adviser who predicted the US housing bubble crash of 2007-08, says conditions are shaping for another US-fuelled global financial crisis in 2020.

The former Clinton administration adviser, now a professor at NYU's School of Business, lists eight interlocking factors that he believes may combine to trigger a global recession in the early 2020s.

Notably, NZ has immunity from some of these factors by virtue of its strong govt accounts, but highly leveraged households exposed to overpriced housing stock and vulnerability to global trade wars are inescapable.

Key points in Roubini's analysis, published Sept 13 by Project Syndicate, are:

- US growth rates will slacken as unsustainable fiscal stimulus peters out, with US growth falling from average 3% p.a. to below 2%;
- US inflation is above target owing to economic overheating, so US interest rates will rise;
- US-inspired trade disputes will escalate and slow global growth;
- other US policies are disrupting investment patterns, global supply chains and technology transfer, reducing the flow of necessary migrant labour into the US economy, and failing to invest coherently in infrastructure. Those all spell US economic slowdown;
- global growth will slow anyway. China needs to slow its overheated, debt-driven growth, while the EU is caught in a 'doom-loop' in which the rise of populist politics will make structural reforms near impossible and incomplete monetary union amplifies the problems created by huge govt and bank holdings of post-QE public debt;
- US and global equity markets are "frothy", as are property prices in many countries. "Markets will reprice risk in 2019";
- potential for 'flash crashes' rises as this correction occurs;
- the US Fed will not be available as a lender of last resort, unlike in the GFC;
- Trump may ramp up foreign crises to avert attention from slow growth or recession in the US;
- potential for the use of unconventional monetary policy – QE etc – will be "limited by bloated balance sheets and lack of headroom to cut interest rates", while populist govts will resist bank bail-outs.

Primary sector

Synlait reported an 89% increase in profit to $74.6m in the year ended July 31, on a revenue rise of 16% to $879m. Gross profit per metric tonne lifted to $1,294 from $792 as it increased its volume of consumer packaged infant formula to 28% of sales from 13%. Production investment increased total net debt by $32.3m to $114.9m.

Fonterra reported its first loss in 19 years of operation. The loss attributable to shareholders of $221m in the year to July 31 compared with a profit of $734m in the prior year. Normalised earnings before interest and tax dropped 22% to $902m. Sales rose to $20.4b from $19.3b, while cost of sales climbed to about $17b from $16b. Results were driven by a $232m payment to Danone and a $439m write down on Fonterra's Beingmate stake. In addition, butter prices affected sales volumes and operating expenses were up. **Brett Henshaw** is to be **Fonterra's managing director, Fonterra Brands NZ**. He is currently Managing Director of **The Griffin's Food Company**.

Beef + Lamb NZ forecasts total lamb exports will remain at around $3.1b in 2018-19, after breaking $3b for the first time in the 2017-18 season. Beef exports are forecast at $3.4b, a 4% decrease. Farm expenditure and revenue is forecast to increase. However, the report forecasts farm profit before tax to decrease 2.8% to $129,700 for 2018-19.

Zespri is forecasting net profit of between $175m and $180m in the year ending March 31, 2019, up from $101.8m. It forecast a dividend of $1.35-to-$1.40, up from 76 cents last season. Zespri expects green kiwifruit to return $5.47 per tray in the 2018/19 season, down from $6.71 last season, while the average per-hectare return is forecast to increase to a new record of $64,455 from $59,981.

Telecommunications and media

Vodafone Group's incoming global chief executive **Nick Read** said the company is tidying up its global operations and the NZ business would probably be floated in 2019.

Renaissance Asset Management bought 14.7m shares in **NZME** for A$8.7m, about 59.5 Australian cents a share, doubling its holding to 12%. The dual listed stock slumped 26% following poor earnings results. RAM felt the stock was undervalued compared to other media companies and doubled its stake as former shareholder **Allan Gray Australia** down its holding.

Clare Curran's replacement, Kris Faafoi, has met with major telco sector players, who are heartened by his early engagement.

Banking, insurance and finance

Banks increased gross loans 1.6% to $412.21b in the three months to June 30 – the biggest quarterly credit expansion since Sept 2016. **KPMG's financial institution survey** said **Heartland**'s loan book was up 2.69% and **BNZ** expanded by 2.01%, the most of the big four. The lenders reported net profit of $1.42b compare to $1.19b in the June 2017 quarter.

Energy and resources

An independent valuation of **Tilt Renewables** rejecting a takeover bid has a "very optimistic" view of the firm's prospects, according to the company's suitor **Infratil.** An independent review suggested if acceptances were not close to 90% the Tilt JV may increase the offer price. Infratil and **Mercury**, which control about 78% of Tilt, are offering $208.5m, or $2.30 a share, for the rest of the business.

Meridian Energy has axed prompt payment discounts. It follows an Electricity Price Review which criticised the widespread use of the discounts saying they operate as a penalty on late paying customers. Meridian called on other retailers to follow suit. None have so far responded, though **Contact Energy** has indicated it is unlikely to move and will continue to offer PPDs on customer choice grounds. Contact recorded its biggest customer loss in seven years after its contract with a major commercial client came to an end. It lost about 4,000 accounts in Aug and now supplies about 410,500 customers, down from 423,500 Aug 2017. Some 2,500 of losses were a single commercial customer it shed as Contact moves out of the commercial sector.

Legislation to amend the **Crown Minerals Act** to ban further offers of offshore oil and gas exploration permits will be unveiled "imminently", the PM said this week. The legislation is required to allow an onshore **2018 Block Offer** to occur, but is believed to be delayed by embarrassment that no official advice backs the plan. In particular, the required **Regulatory Impact Statement** is likely to warn the policy could increase rather than reduce greenhouse gas emissions, if coal is burnt instead of gas, when required for market "firming". The bill may not receive normal select committee scrutiny and may be pushed through under Urgency.

Construction and infrastructure

Fletcher Building plans to invest in a South Auckland panelised housing plant in to coincide with the KiwiBuild programme. The plant will initially be capable of pre-building 500 homes a year, with capacity to grow output to 1,000 homes. Fletcher says it wants to participate in the govt's

KiwiBuild programme, but expects to make substantial non-KiwiBuild sales of the units, which are designed as duplex and standalone two-storey units with a variety of internal layout and external cladding options. The manufacturing has sign-off from Auckland Council as an approved building method.

Wellington Water has named **Fulton Hogan** as their preferred maintenance and operations partner. The new contract will run for a minimum of ten years subject to negotiations. The current contract with **Citycare** expires in June 2019.

Transport, tourism and logistics

Auckland International Airport has announced a $175m six-year retail bond offer to fund expansion. AIA has a $75m floating rate bond maturing next month.

Avis Budget Group has announced the appointment of **Tom Mooney** as Managing Director for the Pacific Region. He is currently CEO at **Thrifty Car Rental** in Australia and NZ.

Wholesale and retail trade

Kathmandu reported net profit of $50.5m in the year ending July 31, up 33% from a year earlier. Sales rose 12 % to $497.4m and gross margins widened to 63.4% from 61%. It is planning to expand in America and Europe.

Chronic underinvestment, not understanding what customers want, and seriously deficient IT systems were incoming **Smiths City** chair **Alastair Kerr's** views on why the retailer lost $7.2m after-tax loss in the year to April 2018.

Capital markets

NZX has signed a memorandum of understanding with the **Nasdaq exchange** to promote dual listings, depository receipts, exchange traded funds and other market initiatives.

Gaming

A review of the **TAB** considered privatising and listing the betting agency, but said there was no appetite among ministers and the wider industry. The report suggests internationally outsourcing TAB's betting service. There is speculation ASX-listed Tabcorp could buy the operating rights for at least A$1.5b.

Courts and regulation

The **Supreme Court** issued a landmark ruling that is expected to alter **govt-iwi relations** because it makes Crown conduct during **Treaty settlements** judicially reviewable and requires iwi rights to be considered when central or local govt deal with iwi, including giving legal meaning to the Maori concept of **tikanga.**

Brought by Auckland iwi **Ngati Whatua**, the original case challenged the estalished practice of allowing iwi with overlapping land and other claims to negotiate among themselves for a preferred settlement path.

The High Court has ordered **MBIE** officials to reconsider **NZ Steel**'s bid to have anti-dumping duties imposed on Chinese steel imports. The judge said the ministry was wrong in assessing what was a govt subsidy and should not have discounted findings of overseas investigations.

The **NZ Shareholders' Assn** has written to the PM, expressing "declining confidence in NZ's capital markets" and citing the **RBNZ** and **FMA's** handling of the **CBL** collapse. It claims the FMA discounted relevant information made available "several years" before the CBL IPO and that the FMA and RBNZ have "not been able to agree on a path that is fair, efficient, and transparent to investors" and CBL policyholders. The NZSA also expressed concern at the two years already elapsed since the FMA begain an investigation into the sudden failure of NZX-listed cyber-software firm **Wynyard Group**.

Appointments

Experienced advertising executive and current WWF-NZ CEO **Livia Esterhazy**, formerly MD at Clemenger BBDO and the Assignment Group in NZ, has been appointed as a non-executive director on the Treasury's advisory board. **Rod Carr** has been appointed as a director of **ASB Bank.**

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